



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 1, 2007

H.R. 900

Puerto Rico Democracy Act of 2007

As ordered reported by the House Committee on Natural Resources on October 23, 2007

H.R. 900 would require Puerto Rico to conduct a plebiscite (a direct vote where an electorate is asked to either accept or reject a particular proposal) by the end of 2009 on whether the island should retain its current relationship with the United States or pursue a permanent nonterritorial status. If the vote favors the ending of territorial status, the legislation would recommend that Puerto Rico convene a constitutional convention or conduct a second plebiscite with other self-determination options (i.e., independence). In addition, H.R. 900 would allow the Department of the Treasury to fund the first plebiscite with up to \$5 million from the excise tax on rum imported into the United States that is currently paid to Puerto Rico (that amount is known as the tax cover over).

CBO estimates that enacting this legislation would have no significant impact on the federal budget because all excise taxes collected on imported rum would be spent under current law. Under the bill, up to \$5 million of the excise tax collections would be used to fund the plebiscite; thus, a portion of that money would be spent differently than under current law.

H.R. 900 contains intergovernmental mandates as defined in Unfunded Mandates Reform Act (UMRA) because it would require the Puerto Rico State Elections Commission to hold a vote to determine whether Puerto Rico will remain a U.S. territory or move toward permanent nonterritorial status. The commission also would have to certify the result of that election to the President and the Congress. Information provided by the Puerto Rico State Elections Commission indicates that the vote would be held during the regularly scheduled election in 2008; therefore, CBO estimates that the mandates would impose costs that would be well below the threshold established in UMRA (\$66 million in 2007, adjusted annually for inflation). The bill would authorize the Secretary of the Treasury to allocate up to \$5 million of the excise tax cover over that Puerto Rico receives under current law to comply with the bill. CBO expects that amount would be sufficient to cover the costs of holding the vote. H.R. 900 contains no private-sector mandates as defined in UMRA.

The CBO staff contacts for this estimate are Matthew Pickford (for federal costs) and Elizabeth Cove (for the state and local impact). This estimate was approved by Peter H. Fontaine, Assistant Director for Budget Analysis.